



**USFR MEMORANDUM NO. 194**

**TO:** School District Administrators; County School Superintendents

**FROM:** Magdalene D. Haggerty, Office of the Auditor General  
Scott W. Thompson, Arizona Department of Education (ADE)

**DATE:** December 18, 2002

**SUBJECT:** Guidance for Classroom Site Funds (Supersedes USFR Memorandum No. 178)

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The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. The amount that school districts receive from the State to use at school sites is based on actual tax collections, not to exceed the Joint Legislative Budget Committee (JLBC) estimate. Districts can download the current year estimate of CSF monies they will receive from ADE's Web site at [www.ade.az.gov/schoolfinance/forms/budgets](http://www.ade.az.gov/schoolfinance/forms/budgets). Laws 2002, Chapter 301 (Law) revised several requirements for CSF monies' uses and made these revisions retroactive to July 1, 2001. This Memorandum provides guidance on accounting and budgeting for, and reporting on, CSF monies in accordance with current statute.

**Accounting and Budgeting for CSF Monies**

To adequately monitor and ensure that CSF monies are used in accordance with Arizona Revised Statutes (A.R.S.) §15-977, districts must maintain detailed records of revenues and expenditures, and track beginning and ending fund balances in three separate Special Revenue Funds as follows:

011 Classroom Site Fund—Base Salary

This fund includes 20 percent of the current CSF allocation and any prior year's unexpended budget balance and interest earnings. Monies in this fund can only be used for teacher base salary increases, teacher employment-related expenses, and registered warrant expenses for this fund.

012 Classroom Site Fund—Performance Pay

This fund includes 40 percent of the current CSF allocation and any prior year's unexpended budget balance and interest earnings. Monies in this fund can only be used for performance-based teacher compensation increases, teacher employment-related expenses, and registered warrant expenses for this fund.

### 013 Classroom Site Fund—Other

This fund includes 40 percent of the current CSF allocation and any prior year's unexpended budget balance and interest earnings. Monies in this fund can only be used for the following maintenance and operation purposes: class size reduction; teacher compensation increases; AIMS intervention programs; teacher development; dropout prevention programs; teacher liability insurance premiums; and registered warrant expenses for this fund.

Some employees other than traditional classroom teachers are eligible for compensation increases from CSF monies. Attorney General Opinion I01-014 clarified the definition of "teacher" as it pertains to the CSF. The Opinion concluded that certified teachers and others employed by a district to provide instruction to students on matters related to the school's educational mission are also eligible for CSF-related compensation increases. Refer to the Opinion at [www.attorney\\_general.state.az.us/opinions/2001.html](http://www.attorney_general.state.az.us/opinions/2001.html) for guidance in determining which employees qualify for CSF-related compensation increases.

Sections 1 and 3 of the Law revised A.R.S. §§15-947 and 15-977, removing the CSF from the general budget limit and making the CSF budget-controlled. Section 4 of the Law added A.R.S. §15-978, establishing the Classroom Site Fund Budget Limit (CSFBL). The JLBC's current estimate, plus any prior year's unexpended budget balance and interest earnings in the CSF, becomes the CSFBL for the budget year. Districts should refer to USFR page VI-F-8 for information on apportioning interest earnings among funds.

Although budget control is applied at the total CSF level (i.e., Fund 010 expenditures cannot exceed the CSFBL), the restrictions placed on the original allocation of revenues apply in all future years. Therefore, the unexpended budget balance must be carried forward in each of the three CSF detailed special revenue funds (011, 012, and 013) separately. Expenditures in any of these funds that would cause the district to exceed the CSFBL, or the statutory percentages of the revenues in the three individual funds, must be reclassified to the Maintenance and Operation (M&O) Fund or other appropriate fund by fiscal year-end before preparing the Annual Financial Report (AFR).

Since the CSF is a budget-controlled fund, districts may make expenditures in the Fund that are within the CSFBL, prior to receiving cash. Sections 3 and 6 of the Law revised A.R.S. §§15-977 and 15-996, respectively, allowing warrants to be registered for the fund. The County Treasurer may register warrants for the CSF if the total cash balance of the CSF, M&O, Unrestricted Capital Outlay, Soft Capital Allocation, and Adjacent Ways Funds is insufficient to cover the expenditures. Such registered warrant expenses should be charged against the appropriate fund (011, 012, or 013).

### **Supplanting**

As described above, districts may only use CSF monies in accordance with the statutory revenue allocation restrictions. Districts must also ensure that they do not use CSF monies for administrative purposes, and that the monies they use for teacher compensation increases or as otherwise allowed by statute, supplement rather than supplant existing monies from all other sources (e.g., federal, state, and local). When budgeting expenditures, districts should consider

the following guidance to help ensure that CSF monies supplement, rather than supplant, existing monies.

Districts should continue to maintain at least the same level of effort with non-CSF monies. Certain district resources, including those in the M&O and many federal and state grant funds, can be used for the same purposes as CSF monies. To the extent that the district has supported such activities with non-CSF monies, and those monies are still available, the district should continue to do so.

For example, each teacher's salary must be funded from non-CSF monies to at least the same extent that it was in prior years. Therefore, a district generally cannot decrease the amount paid from non-CSF monies for a teacher's salary while increasing the amount paid from CSF monies. However, if a non-CSF source of funding is no longer available to the district, such as the loss of a budget override, the district may be faced with eliminating a position. In this case, a district may be able to use CSF monies to pay for the position as class size reduction under 013—CSF Other.

Districts that are experiencing student growth should increase expenditures from non-CSF monies to continue supporting district operations at a similar level of effort. For example, a district that decides to increase the number of teachers due to growth in student population should use non-CSF monies, rather than CSF monies. In this situation, adding teachers is considered maintaining the district's prior level of effort rather than class size reduction because it does not decrease the student to teacher ratio.

Additionally, districts should consider whether any of their planned uses of CSF monies will result in the appearance of supplanting. If so, districts should clearly document specific information that would support that supplanting did not occur. The following are examples of situations that may appear to be supplanting:

- CSF monies were used to fund additional teacher positions as class size reduction, but the student to teacher ratio did not decrease from the prior year.
- Additional CSF monies were used for a teacher's salary, but the teacher's total salary did not increase.
- CSF monies were used for AIMS intervention or dropout prevention programs, but non-CSF expenditures for these programs, in the aggregate or per student, decreased.
- CSF monies were used for teacher salaries and allowable programs while the district experienced growth in student population and a corresponding increase in non-CSF funding, but the use of non-CSF monies for teacher salaries and CSF allowable programs did not increase.

Due to varying circumstances at districts, this Memorandum cannot address all possible situations that might be considered supplanting. Therefore, each district, in considering its own unique circumstances, should determine and document through its accounting records that CSF monies are not being used to supplant non-CSF monies.

### **USFR Compliance Questionnaire**

Questions will be added to the USFR Compliance Questionnaire for CSF expenditures to determine whether monies were used in accordance with statutory requirements and without supplanting non-CSF monies. Currently, auditors should test compliance with the statutory requirements, including those related to CSF monies, as part of their compliance audit work under Government Auditing Standards. Districts were notified in May 2001, in USFR Memorandum No. 178, that for fiscal year (FY) 2001 and all subsequent years, districts should retain detailed payroll records and salary schedules for employees, and expenditure records for any programs that may be funded with CSF monies in future years (dropout prevention, teacher development, AIMS Intervention, etc.). Districts will need these records to support CSF expenditures and to document that they have not supplanted non-CSF monies with CSF monies.

### **AFR Requirements**

A.R.S. §15-977(E) requires districts to report CSF expenditures annually on a per-school basis and provide a written summary of the programs' results. Beginning with the FY 2002 AFR, a districtwide CSF Narrative Results Summary and CSF Expenditures by School are included in the USFR Memorandum for the AFR.

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

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